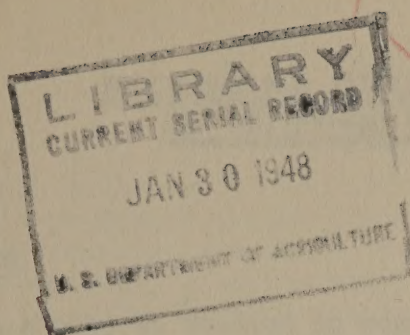


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FOR ADMINISTRATIVE USE

REA BOOKKEEPING COURSE

Text No. 20
(Revised 12-47)
Procedure for Handling Construction
And Retirement Work Orders

1917-1918

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UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Finance Division
Washington 25, D. C.

PROCEDURE FOR HANDLING CONSTRUCTION
AND RETIREMENT WORK ORDERS

Text No. 20
(Revised)

INTRODUCTION

This lesson should be studied in connection with the Manual of Work Order Procedure and Related Instructions on Force Account Construction, and reference should be made to the forms and examples included therein as may be necessary.

1. GENERAL

The original electric lines of an REA-financed system are generally built under contract by a construction contractor under the supervision of an engineer. The plant acquired in this manner serves those members who applied in the original allotment and usually reaches only those farmers who live along the line. Subsequently, new people who may not live within easy reach of the existing line are likely to make application for service. This makes necessary the construction of extensions to serve these new members.

In order that actual costs may be maintained of all additions of new line and retirements of old line, Individual Work Order Cost Sheets have been devised for this purpose. The same form of cost sheet is used for both construction work orders and retirement work orders.

The cost sheets represent a summary of the actual costs of doing the work involved. The accumulation of these costs means that the use of the following items must be adequately controlled:

1. Material.
2. Direct Labor.
3. Overhead.
 - a. Transportation Costs.
 - b. Indirect Labor.
 - c. Social Security Taxes.
 - d. Insurance.
 - e. Stores Expense.
 - f. General Office Expense.
 - g. Miscellaneous.

2. MATERIAL

a. Requisitioning Material from Stockroom

It is assumed that authorization has been received to do some construction on work orders. In addition, trouble calls come in requiring some maintenance or operations work. Consequently, a staking sheet is issued authorizing the work to be done on the work orders while an order is issued covering the other maintenance or operations work. Material is then withdrawn from the storeroom on the basis of the work called for on the staking sheet and the order.

When materials are taken from the stockroom a Material - Job Charge Ticket is prepared, listing the size or class of each item of material and the number of items. This ticket should be prepared by the stockroom clerk or other person who has charge of the stockroom. If the material is to be used on a work order the work order number should be entered on the form. Material withdrawn for maintenance or operations work should show the account to be charged.

When materials are returned to the stockroom from retirements of line a Material - Job Credit Ticket should be prepared listing the size or class of each item of material and the number of items. The ticket should show the retirement work order to be charged. When more material has been charged to a work order than is used, such material should be returned to the stockroom and listed on a Material - Job Credit Ticket showing the work order number to which charged. Separate Material - Job Credit Tickets should be used for unused material and material retired from the line.

b. Stock Record Card

In order to properly account for materials a stock record card must be maintained for each item of material. On these stock record cards is recorded the detail of all entries which are made to Account 131.1 Materials and Supplies - Electric in the general ledger. The maintenance of the Stock Record Cards is known as maintaining a perpetual inventory.

The first step in maintaining a perpetual inventory is to count each item of material and prepare a list showing the size or class, the name of the material item, and the number of items of each size or class on hand. A unit price for each item is entered from the latest invoices and the total cost obtained. This is known as a physical inventory. The amount in Account 131.1 Materials and Supplies-Electric should then be adjusted to agree with the amount of the physical inventory. If the adjustment is a credit to Account 131.1 the charge should be made to Account 146(b) Other Deferred Debits. If the adjustment is a debit to Account 131.1 the credit should be made to Account 242.2 (b) Miscellaneous Deferred Credits.

The next step in maintaining the perpetual inventory is to prepare a Stock Record Card for each item of material showing date, quantity, amount and unit price of the material on hand.

Physical inventories should be taken as of the end of the month and the bookkeeper should check to see that all invoices of material which have been received in the stockroom are charged to the material account. The stockroom clerk should check all material purchased and received in the stockroom with the purchase invoice before the invoice is paid, or the items entered on the Stock Record Card. In posting the price to the stock card, all discounts and sales taxes should be taken into consideration in arriving at the unit price. After the amounts are entered on the stock cards a tape should be run to see that the different amounts posted to the cards equal the total amount of the invoice. All material used during the month should be priced at the average price shown on the cards at the beginning of the month. Items on the purchase invoices and sales invoices should be posted at the time the material is received or leaves the stockroom. The items listed on the Material - Job Charge Tickets and Material - Job Credit Tickets are not posted direct to the stock record cards but a summary is made on the Summary of Material Items Used and Retired Form and one posting is made at the end of the month. The items on the summary are priced by using the average unit price shown at the beginning of the month. After all postings have been made to the stock cards for the month the Balance on Hand is computed for each item showing the quantity, amount and average unit price. A tape is then made of the amounts shown in the Amount column and the total must agree with the balance in the Materials and Supplies Account 131.1 in the general ledger.

c. Material Tickets

The Material - Job Charge Tickets and Material - Job Credit Tickets are priced daily from the Stock Record Cards and the total amount of the tickets obtained. The quantity of items is then posted to the Summary of Material Items Used and Retired showing the items charged in black and the items returned to stock in red. Where several tickets are used in one day it will be necessary to tabulate the different items before entering them on the summary. The money amount of each ticket is then posted to the Material Summary and Distribution to Accounts Form. The amounts on the tickets which are charged to construction work orders, and the credits for unused material are then posted to the Individual Work Order Cost Sheet for the work order. Material salvaged on retirement work orders is posted to the cost sheet for the retirement.

d. Material Summaries

At the end of the month the summary of material items used and retired is completed by adding the quantities of each item for each day recorded and showing the total of "used" and "retired" items in their respective columns.

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The item price is then entered on the summary from the stock record card using the Average Unit Price at the beginning of the month. The total values columns are then completed and the total cost of both material used and material retired is then obtained. The total items used, item price and value is posted to the stock record card. The same procedure is followed for the retired items. Only useable material should be recorded on the summary. Material which is not useable should be reported as "Junk" and priced at its salvage value. A separate stock card should be carried for junk. It will be noted that meters and transformers are shown on the example on the Material - Job Charge Ticket. This is not a part of the material account and the items are not carried to the summaries. It is advisable to maintain meter and transformer stock record cards for the purpose of being able to determine the number of items on hand and the current price to be used.

At the end of the month the columns on the Material Summary and Distribution to Accounts are totaled and two journal entries are made. The one entry records the material used and the other records the material salvaged. A net entry should not be made. Referring to the Manual on Work Order Procedure, Form CO-103, the entries would be as follows:

Debit: 100.32 Construction Work In Progress -

Force Account	\$729.69
761 Operation of Lines	3.25
768 Maintenance of Lines	16.82

Credit: 131.1 Materials and Supplies - Electric \$749.76

To record material used during month of July 1945.

Debit: 131. Materials and Supplies - Electric \$ 7.24

Credit: 144 Retirement Work in Progress \$ 7.24

To record material returned to stock during month of July, 1945.

The amounts shown on both summaries should be in agreement. The material charges and credits on the cost sheets should also be reconciled with the material amounts shown on the summaries.

3. DIRECT LABOR

a. Daily Work Report

The Daily Work Report should be completed for all employees who work on construction, maintenance and operation assignments. The number of hours worked on each work order, or other assignment should be shown together with the total hours worked. The number of miles driven by the truck or automobile should also be recorded. Care should be exercised to see that the work order numbers are entered on the daily report. The recommended form shows a description of each kind of work and the account number to be charged. The description is to be used by the workman for

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classifying his time while the accounts are to be used by the bookkeeper in summarizing the time charged. The line forman, manager or other designated employee should be responsible for the proper breakdown of the hours worked. The miles driven should be distributed on the basis of the hours worked on the various operations during the day.

b. Employees Semi-Monthly Time Sheet

This form is used to summarize the hours worked as shown on the Daily Work Report, and becomes the payroll record. Office employees should use this form to record a distribution of their time to the various operations on which they work. It is not necessary for such employees to prepare the Daily Work Report, but the time of such employees should be entered at the end of each day. This will also be an aid in the distribution of the amount of the payroll checks. Office employees working on work orders do not need to charge their time to specific work orders since such time is considered as indirect labor and is a part of the overhead cost.

This form may be used whether the employees are paid on weekly, bi-weekly or semi-monthly basis by lining out the dates not applicable. When employees are paid monthly it will be necessary to use two sheets to complete the payroll.

At the end of the pay period the form will be completed by adding hours posted to each operation, and entering the total in the hours column. The rate is then applied and the direct labor cost obtained.

The amounts of the payroll charged on the semi-monthly Time Sheets to the individual work orders are then posted to the Individual Work Order Cost Sheets as costs of direct labor.

4. OVERHEAD COSTS

All charges to construction other than material and direct labor are considered as overhead costs. Examples of overhead charges are as follows:

a. Transportation Costs

This includes the cost of transporting material and workmen to and from the job.

b. Indirect Labor

This includes a part of the salaries of managers, bookkeepers, work order clerks and other employees not directly working on construction but performing services in connection with such work.

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c. Social Security Taxes

Employer's portion of Old Age Benefits and State and Federal Unemployment Taxes.

d. Insurance

Workmens Compensation and Public Liability and Property Damage premiums prorated on the basis of payroll charges to construction.

e. Stores Expense

That part of stores expense which is prorated on the basis of material charges to construction.

f. General Office Expense

Stationery, office supplies, forms, etc., which are used for construction purposes.

g. Miscellaneous

Items such as dynamite, fuse caps, small tools, etc.

5. TRANSPORTATION COSTS

During the month all transportation costs are charged to Account 903 - Transportation Expense -- Clearing. At the end of the month this account is cleared and the proper charges are made to Account 100.32 - Construction Work in Progress - Force Account and other accounts on the basis of the miles shown on the Summary and Distribution of Transportation Costs. The rate per mile for the use of the truck is obtained by dividing the total charges to Account 903 by the number of miles driven during the month. Where two or more trucks are used the average cost per mile may be used or individual truck rates may be obtained by making a breakdown of the charges as shown in the example on Sample Form No. 16.

6. DISTRIBUTION OF OVERHEAD COSTS

After all postings have been made for the month, the total overhead costs charged to Account 100.32 should be determined by adding the amounts. The total overhead costs for the month is then divided by the total of the direct labor charged to the account and the percentage of overhead obtained. This percentage is then entered on all Individual Work Order Cost Sheets for the month on the "Overhead" line. The Total Labor amount on each cost sheet is then multiplied by the overhead percentage and the amount of overhead entered. Tapes should then be run on the cost sheets for the month for each cost - material, labor and overhead. The amounts in Account 100.32 should check with the amounts charged on the cost sheets, and any differences should be adjusted.

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7. INDIVIDUAL WORK ORDER COST SHEETS

Each cost sheet represents an individual work order and the total cost represents the total construction costs for the month. The date of completion of each work order should be entered on the cost sheet on the line provided on the form. Those completed during the month should be removed to a completed file. Those remaining will represent the uncompleted jobs at the end of the month. A new cost sheet should be opened the following month for the uncompleted jobs. Cost sheets for jobs which cover work in more than one month should be stapled together when completed.

In the lesson to this point the work order costs have been explained, how they are entered on the records and finally posted to the cost sheets for each work order. The method of converting these costs to an inventory of construction work orders will now be explained.

8. STANDARD ASSEMBLY COSTS

A card should be prepared for each standard assembly or unit of property. The plans and specifications show the description of the items of material which comprise each unit of property. The items of material are entered on the cards with the number used entered in the "Quantity" column. The unit price is then entered from the stock record cards and the total cost of the material is determined. The estimated labor and overhead cost is then entered on the card and the total cost determined. The estimated labor and overhead cost is determined from past experience.

Standard costs should be revised as often as the "average Unit Price" changes on the Stock Record Card for any item of material or when experience shows that the prior estimated labor and overhead costs are either too high or too low.

9. STAKING SHEETS

Staking sheets are prepared for each extension or work order when the work is laid out. This is a detailed list of all units of property which are to be installed in the construction of the extension.

10. TABULATION OF STAKING SHEETS

At the end of each month the units of property listed on the staking sheets for each job completed during the month are summarized on the Tabulation of Staking Sheets Form and the total units installed are obtained.

11. INVENTORY OF CONSTRUCTION WORK ORDERS

From the information now obtained the Inventory of Construction Work Orders is prepared. On the front of the inventory are entered the work order numbers

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of all work orders completed during the month. The material and labor and overhead costs are entered from the cost sheets for the completed jobs as shown in the "Summary of Advances Required" on the bottom of the cost sheets. After these amounts are entered on the front of the inventory each column is then totaled.

On the back of the inventory is entered the assembly units and the quantity of each from the tabulation of staking sheets. The standard costs for material and labor and overhead are then entered opposite each assembly unit from the standard cost cards. The total standard cost of material and labor and overhead is then determined by multiplying the number of units by the unit cost. The total standard material cost and total standard labor and overhead cost columns are then added and the total amounts entered opposite the Total Standard Costs at the bottom of the page. The actual material and Labor and overhead costs are then carried from the front of the form and the difference in the costs obtained. The total difference is then entered at the bottom of the "Adjustment" column. The total adjustment is then prorated to the total standard labor and overhead cost of each assembly. This is done by dividing the total adjustment by the total standard labor and other cost and obtaining the percentage of adjustment. Each amount in the total standard labor and other cost column is multiplied by this percentage and the adjustment entered in the adjustment column. The total adjustment is then reconciled by adding up the breakdown of the adjustments.

The adjustments are then added to the standard labor cost to get the adjusted labor cost. The adjusted labor and other cost is added to the total standard material cost and the amount entered in the total installed costs column.

Since meters and transformers are capitalized when purchased the amounts shown on the front of the inventory are entered in the "Capitalized" column on the back of the form. These amounts are then deducted and the net amount entered in the "To be Capitalized", column.

12. USED METERS AND TRANSFORMERS

When the meters and transformers are first installed on the line the labor of installation is capitalized. When they are reinstalled the labor should be charged direct to the operating accounts on the Daily Work Report. In this manner the labor is not capitalized when used meters and used transformers are installed on a work order. It should be noted on the sample inventory that no labor is entered for the used meters and on the installation of used transformers only the labor for installing the additional equipment is shown.

13. ACCOUNT 100.6 UNCLASSIFIED PLANT IN SERVICE

After the Inventory of Construction Work Orders has been prepared a journal entry should be made transferring from Account 100.32 to Account 100.6 the material, labor and overhead costs as shown on the inventory which is also

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the amount shown on the completed cost sheets for the month. This amount remains in the latter account until the approved inventory is returned from REA. At that time a journal entry should be made transferring the amount to the plant accounts as shown in the last column on the back of the inventory.

14. RETIREMENT WORK ORDERS

Account 144, Retirement Work in Progress is a clearing account for retirements. To this account is charged the original cost of property retired and the labor and overhead cost of retiring the property. It is credited with the value of the useable material returned to stock. The difference or loss due to retirement is debited or credited to Account 250.5 Reserve for Depreciation - Distribution Plant.

15. ANALYSIS OF ORIGINAL COST OF PROPERTY RETIRED

When a part of the distribution plant is retired a staking sheet is prepared showing the units of property to be retired. An analysis is then made showing the installed cost of the property to be retired which is taken from either the original inventory if built by the contractor or from the work order if built by force account. If the plant to be retired was originally built by contract the overhead capitalized should be added to the installed cost. Twelve percent should be used unless the actual overhead percentage capitalized has been furnished by the auditors. When the total cost of the property retired has been determined an entry is made debiting Account 144 and crediting the proper plant accounts.

The material salvaged and returned to stock as useable material is entered on the Material - Job Credit Ticket and posted to the material summaries. The material salvaged is also posted to the cost sheet for the retirement work order. The labor and overhead costs are charged to Account 144 and posted to the cost sheet in the same manner as on construction work orders.

The preparation of the Inventory of Retirement Work Orders is quite simple in comparison with the preparation of the Inventory of Construction Work Orders. On the front of the inventory is entered the information shown on the cost sheet while on the back of the form is entered a breakdown by accounts the information shown on the Analysis of Original Cost of Property Retired.

16. WORK ORDER SCHEDULE

The work order schedule Form FI-220 is not to be used after adopting the inventory methods of reporting work order construction, except that all work orders previously approved by REA should be listed. When the Inventory of Construction Work Orders is processed by REA, if all approved work orders have been listed on Form FI-220, the totals of Item 14 Material and Item 15 Labor and Other will be carried to spaces in the "Previous

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total to date" column on the inventory and added to the amounts shown for the inventory under "Total This Schedule". The "Total to Date" column will be then completed which will be the total amount to be advanced for work orders. From this amount for material will be deducted the amount shown on the Inventory for Retirement Work Orders for material returned to stock. In requisitioning funds for work orders, the previous advances as shown on the last requisition will be deducted from the amounts determined as above and the balance will be the amount to be requested on the next requisition.

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17. SUMMARY OF ACCOUNTING PROCESS IN RETIRING PROPERTY TO STOCK

Experience has shown that the use of a retirement clearing account in which to record all costs incidental to the retiring of property has simplified the handling of such retirements. To illustrate the accounting process in the use of Account 144, Retirement Work in Progress, the following figures are assumed:

Installation cost per Contractors' Inventory of a pole retired,	\$15.00
Labor cost in retiring the pole	4.00
Overhead chargeable to retirement	1.50
Salvaged value of pole	7.00

(a) General Journal

Debit: 144 Retirement Work in Progress	\$16.80	
Credit: 354 Poles, Towers and Fixtures		\$16.80

To retire plant at contract price plus 12% overhead

(b) Cash Disbursement Journal

Debit: 144 Retirement Work in Progress	\$4.00	
Credit: 120.1 Cash - General		\$3.96
Credit: 228.3 Accrued U.S. S.S. Tax		.04

(c) General Journal

Debit: 144 Retirement Work in Progress	\$1.50	
Credit: (Accounts from which expense is derived)		\$1.50

To record overhead costs chargeable to retirements

(d) Debit: 131.1 Material and Supplies - Elec.	\$7.00	
Credit: 144 Retirement Work in Progress		\$7.00

To record salvaged value of pole returned to stock.

(e) Debit: 250.5 Reserve for Depreciation of Distribution Plant	\$15.30	
Credit: 144 Retirement Work in Progress		\$15.30

To record loss due to retirement on Work Order No. _____

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Problems
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INSTRUCTIONS TO STUDENTS: The answers to questions may be prepared on paper of this size. Number your answers to conform with the problems. Use the following heading on each page:

Name _____ Subject Procedure for Handling Construction and Retirement Work Orders
System _____ Text No. 20
Position _____ Address _____

1. Name the three items which combine to make up the cost of any construction.
2. Define a perpetual inventory and describe its use.
3. What purpose does the control account 131.1 - Materials and Supplies - Electric serve--and how is its accuracy to be determined?
4. What is a physical inventory and what advantages are obtained by such inventory?
5. Prepare the journal entry to charge out the material used during the month for the following purposes:

Maintenance	\$150.00
Operations	12.00
Work Orders	360.00

6. Define an Individual Work Order Cost Sheet.
7. During a certain month Account 100.32 Construction Work in Progress - Force Account was charged with the following costs; Labor \$800.00; Material \$1,200.00; Indirect Labor \$40.00; Transportation Expenses \$220.00; Insurance \$29.80; Social Security Taxes \$35.60; Stores Expense \$60.00 and General Office Expense \$14.60. Determine the monthly percentage rate of Overhead to be entered on the cost sheet.
8. Explain the method of determining the accuracy of construction costs entered on the cost sheet.

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9. At the end of the month from an analysis of Account 100.32 you find that the balance in the account of \$2,730.00 represents \$330.00 which was in the account at the beginning of the month and \$2,400.00 was charged during the month. Completed work orders for the month as shown on the cost sheets amounted to \$2,215.00. What entry should be made on the books.
10. A work order covered work during three different months, state how you would record the charges on the cost sheets.
11. A pole was retired from the line which was a part of the construction on Section A. The contractors inventory showed an installed cost of \$15.31. Labor of \$3.00 and overhead in the amount of \$1.50 was charged as the removal cost of the property. The retired pole was found to be unusable and had no salvage value. Prepare the necessary journal entries to record these transactions.
12. Explain how standard costs are determined.
13. How frequent should standard costs be revised?
14. What is the purpose of the Adjustments in arriving at the installed costs on the back of the inventory?
15. (a) Why are meters and transformers deducted in arriving at the amount to be capitalized?
(b) Why are labor and overhead costs not charged to work orders when used meters and transformers are re-installed on the lines?
(c) Should the same standard costs be used for new meters and transformers and used meters and transformers?

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1. The three items which make up the costs of construction are material, labor, and overhead.
2. A perpetual inventory is the systematic recording of the detail of all charges and credits to Account 131.1 Materials and Supplies - Electric on stock record cards for individual items of material. The stock record cards serve as a subsidiary ledger for all entries in Account 131.1 and the total of all balances on the stock record cards equals the balance in the material account.
3. Account 131.1 - Material and Supplies - Electric serves as a control over the stock record. Its accuracy can be determined by taking a total of all the stock record cards. These should add to the balance shown in Account 131.1. The account balance should also represent the actual amount of material on hand.
4. A physical inventory is the actual count of all material on hand; the listing of the material by quantity on hand, description of item, size or class of item, current unit price and total cost of each item.

		<u>Debit</u>	<u>Credit</u>
768	Maintenance of Lines	\$150.00	
761	Operation of Lines	12.00	
100.32	Construction Work in Progress - Force Account	360.00	
	131.1 Materials and Supplies - Electric		\$522.00

To record material used for the month.

Note: Other accounts might be used for maintenance and operation material and would depend on the distribution shown on Form CO-103.

6. An Individual Work Order Cost Sheet is a form used to record the costs of material, labor and overhead charged to a particular work order. It is also used to record the amount of REA Construction Funds required to finance the construction of the work covered by the work order. It also records data as to a description of work done and the date when the work was started and completed.

7. Total Direct Labor \$800.00
Total Overhead 400.00
Percentage of Overhead ($\$400.00 \div \$800.00 = .50$) 50%.

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8. At the end of the month a tape should be run on the material charges and credits to each work order during the month. The amount should agree with the material charges to Account 100.32. The same procedure should be followed in reconciling the charges for direct labor and overhead costs.

9. Debit: 100.6 Unclassified Electric Plant in Service \$2,215.00
Credit: 100.32 Construction Work in Progress -
Force Account 2,215.00

To transfer completed work orders from the clearing account.

10. A separate cost sheet should be made each month to cover the charges for the month. The cost sheet for the previous month should be attached to the cost sheet for the current month. When the inventory is prepared the total of all cost sheets should be entered on the Summary of Advances Required and carried to the inventory.

11. (a) Debit: 144 Retirement Work in Progress \$17.15
Credit: 354 Poles, Towers and Fixtures \$17.15

To retire plant at contract price plus 12% overhead

(b) Cash Disbursement Journal

Debit: 144 Retirement Work in Progress \$3.00
Credit: 120.1 Cash - General \$2.97
Credit: 228.3 Accrued U.S. S.S. Tax .03

(c) General Journal

Debit: 144 Retirement Work in Progress \$1.50
Credit: (Accounts from which expense
is derived) \$1.50

To record overhead costs chargeable to retirements.

(d) Debit: 250.5 Reserve for Depreciation -
Distribution Plant \$21.65
Credit: 144 Retirement Work in Progress \$21.65

To record loss due to retirement on Work Order No. _____.

12. Standard costs are determined for each assembly unit by pricing material at the current price and estimating the labor and overhead costs on the basis of past experience. The material items are taken from the plans and specifications.

13. The material costs of the standard costs should be revised whenever any of the material prices change. The labor and overhead costs should be revised whenever experience shows the costs to be too high or too low.

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14. The purpose of the adjustments is to bring the standard costs to the actual costs. Since labor and overhead are estimated costs on the standard cost card and there may be lost and broken material on most jobs the actual costs will vary from the standard costs. This variation or difference is prorated on the basis of the standard labor and other costs and added or subtracted in arriving at the adjusted cost.
15.
 - (a) Because they are capitalized when purchased.
 - (b) The labor and overhead costs are capitalized in the original installation, and that cost remains in the account.
 - (c) In preparing standard costs for new meters and transformers the full cost of installation should be added. No labor and overhead costs should be added to used meters and transformers.

